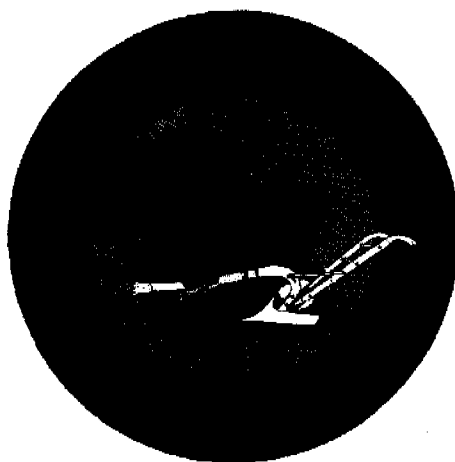


**COUNTY OF COLUSA,  
CALIFORNIA**



**MANAGEMENT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2009**

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**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
FOR THE YEAR ENDED JUNE 30, 2009**

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To the Board of Supervisors and the Grand Jury  
County of Colusa  
Colusa, California

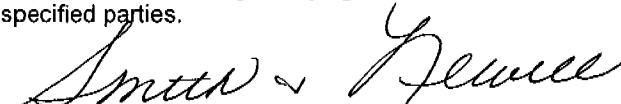
We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Colusa, Colusa, California (County), as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the County about matters that are important to the County's oversight role. We previously reported on internal control and compliance in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated March 19, 2010.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The following report summarizes our comments and suggestions including immaterial noncompliance and control deficiencies that are not considered significant deficiencies or material weaknesses.

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the organization, the Board of Supervisors and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's  
Yuba County, California  
March 19, 2010

**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**09-MC-01 ROAD INVENTORY**

**Condition**

At the time of our fieldwork we noted that four of the twenty-five items counted in the road inventory, equaling approximately 20% of the total cost tested, did not agree to the final inventory count as of June 30, 2009.

**Cause**

The physical count of road inventory is not reconciled to the perpetual inventory records.

**Criteria**

Good internal control over road inventory requires that the physical count be reconciled to the perpetual inventory records.

**Effect of Condition**

The risk of errors or irregularities occurring and not being detected in a timely manner is increased when the physical inventory count is not reconciled to the perpetual inventory records.

**Recommendation**

We recommend that the physical inventory be completed in an accurate manner and that all differences be resolved.

**Corrective Action Plan**

Previously the County Auditor-Controller has discussed the inventory differences with the Public Works Department. There has been a concentrated effort to improve the reconciliation of the physical inventory. The importance of accurate inventory reporting has been stressed with Public Works mechanics. The Time, Materials and Safety Assistant has been trained on the proper procedures for inventory maintenance and control. This individual works closely with the mechanics to ensure that the inventory is properly tracked. Training is on-going. With the procedures and training in place, reconciliation of the "parts" inventory should be more accurate in the future.

There may continue to be a small discrepancy in the "materials" inventory. The County is able to accurately record additions to the materials inventory as products are purchased. However, accurate recording of reductions to the materials inventory is much more difficult. For instance, the County does not have scales to determine the exact amount of patch material used on a given day. The County knows that a particular patch truck holds approximately "xxx" pounds of material, but it is not precisely weighed and measured out. (It is much easier to count the number of bolts or tires that are used for a repair job.) Further, as materials are used there is some settling of the product and it becomes un-useable and consequently it is pumped out. There may not be accurate measurement procedures for this process.

A new Public Works Director was hired on February 1, 2010. He voiced an interest in internal controls and improved processes. The County Auditor and Public Works Director and Department will continue to monitor and review the progress, to determine if there are additional inventory controls and procedures that can be established to ensure the security and accuracy of the Road Department inventory.

**09-MC-02 PAYROLL WITHHOLDING**

**Condition**

During our payroll test of five employees, we noted the County was withholding an incorrect amount for state income tax for one employee.

**Cause**

The County calculated the state income tax using the table for married persons rather than the table for single, dual income married or married with two or more employers table as marked by the employee on form DE-4.

**COUNTY OF COLUSA, CALIFORNIA  
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**09-MC-02 PAYROLL WITHHOLDING (CONTINUED)**

**Criteria**

Payroll withholdings are to be based on the form W-4 or DE-4 completed by each employee.

**Effect of Condition**

The County withheld an incorrect amount of state income tax for one employee.

**Recommendation**

We recommend that the County review the withholdings entered in the payroll system to ensure that employee withholdings are correct in accordance with the form W-4 and DE-4 completed by each employee.

**Corrective Action Plan**

The State Employee's Withholding Allowance Certificate, DE-4, is confusing to some employees. An employee has the following options to "X" the box for "Filing Status Withholding Allowances":

SINGLE or MARRIED (with two or more incomes)  
MARRIED (one income)  
HEAD OF HOUSEHOLD

Unfortunately some employees place an "X" next to "SINGLE or MARRIED (with two or more incomes)" and circle the word "MARRIED", because they believe they are reporting they are Married and there are two incomes in the household (husband and wife). However, this box should be used by one person that has "dual" employers; not two individuals that have one employer each. An "X" in this box will result in tax withholding based on a "SINGLE" individual.

Consequently when the Payroll Division receives a DE-4 with an "X" next to "SINGLE or MARRIED", and the word "MARRIED" circled they call the employee and ask what they actually meant to report. Payroll adjusts the computerized employee records based on the employee's verbal response. From this point forward Payroll will have the employee submit a new signed DE-4 to document the correct employee information.

**09-MC-03 CAPITAL ASSETS**

**Condition**

During our audit we noted that the County's schedule of land contained unidentified costs incurred prior to fiscal year 1989/90 of \$311,830 and an unidentified adjustment of \$47,544 in fiscal year 1994/95.

**Cause**

The County has not completed a review of all land owned by the County and its historical cost.

**Criteria**

Good internal control over capital assets requires that all capital assets be properly identified and recorded.

**Effect of Condition**

Errors in the capital assets listing can result in material misstatements of the financial statements.

**Recommendation**

We recommend that the County identify all properties owned, the date of purchase and cost of each item.

**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
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FOR THE YEAR ENDED JUNE 30, 2009**

**09-MC-03 CAPITAL ASSETS (CONTINUED)**

**Corrective Action Plan**

The County Auditor-Controller has developed a complete listing of all land owned by the County, which includes the Assessor parcel numbers. However, much of the land was purchased in the 1800's and in subsequent years. Detailed records regarding land purchases (date of purchase and cost of each item) were not maintained until the last twenty or thirty years. We will strive to develop a system to identify, date and value the land with the resources that we have available. We will work diligently to complete this project as time permits. This is a long-term project and will require assistance from the County Assessor and County Clerk-Recorder.

**09-MC-04 SOLID WASTE**

**Condition**

As of June 30, 2009, the Solid Waste enterprise fund had deficit net assets of \$2,064,816 after adjusting the closure/post-closure liability.

**Cause**

The County Solid Waste enterprise fund has not adequately funded the closure/post-closure liability.

**Criteria**

The County is required by State and Federal laws and regulations to adequately fund the closure/post-closure liability.

**Effect of Condition**

The Solid Waste enterprise fund has an unfunded closure/post-closure liability.

**Recommendation**

We recommend that the County review the funding provisions for this liability and determine what action is necessary to adequately fund the closure/post-closure liability and whether a pledge of revenue has been adopted to fund the post-closure liability for both landfill sites.

**Corrective Action Plan**

Separate closure/post-closure funds were established in 1989; Stonyford Landfill (Fund #04003) and Evans Landfill (Fund #04004). These two funds are adequately funded on an annual basis. The Board of Supervisors is kept apprised of the large deficit fund balance in the Solid Waste Enterprise Fund (#04000), and has taken action to increase revenues and reduce the deficit. They acknowledge the need to reduce the deficit as it would ultimately be a liability of the General Fund. However, they realize the deficit reduction will take a number of years. If the fees are increased at too fast a rate, the current users would find a less expensive option for their landfill needs. For the last several years estimated revenues have been budgeted in excess of appropriations, thereby whittling away at the deficit cash balance. As a consequence the negative cash balance has decreased significantly. Net assets increased \$338,211 in the 2008-09 fiscal year. The Board is also analyzing possible rate increases.

**09-MC-05 AGENCY FUND DEFICITS**

**Condition**

As of June 30, 2009, we noted that there were several funds including agency funds with deficit cash balances and we noted that there was no formal written policy addressing approved procedures.



**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**09-MC-05    AGENCY FUND DEFICITS (CONTINUED)**

**Cause**

The County allows Agency funds to have deficit cash balances without an approved policy.

**Criteria**

Generally accepted accounting principles require the County to have a policy which addresses how deficit cash balances are to be handled and if and when they are to be allowed.

**Effect of Condition**

The County has several funds including agency funds with significant deficit cash balances for which we could find no specific County authorization policy.

**Recommendation**

We recommend that the County adopt and/or review an appropriate policy for authorizing and controlling deficit cash balances.

**Corrective Action Plan**

Currently it is the County's informal policy to monitor deficit fund balances on a monthly basis. The County's computerized treasury system automatically calculates interest on a daily basis for all treasury funds with positive cash balances and a corresponding interest "expense" (or negative interest) on all treasury funds with a negative cash balance. If selected, the County's Fund Accounting System has controls that do not allow payment of invoices that will put a fund in the red. When funds are initially established, a decision is made whether to allow a fund to go in the red or not, based on the timing of funding and revenue potential. However, the County is in the process of formalizing a written policy authorizing and controlling deficit cash balances. In the meantime the County Auditor is working with entities that have on-going negative cash balances to assist them with financial planning and stability. We recognize some funds will take a number of years to eliminate their deficit balances.

**09-MC-06    SHERIFF INMATE AND CIVIL CASH ACCOUNTABILITY AND RECONCILIATION**

**Condition**

At the time of our fieldwork, we noted that the Sheriff inmate and civil outside trust bank accounts were not reconciled to a detail list of monies held for inmates or open civil cases.

**Cause**

The Sheriff inmate and civil bank accounts are not being reconciled to a detail list of accountability.

**Criteria**

Good internal control over cash requires that all bank accounts be accurately reconciled to a detail list of monies held for inmates or open civil cases.

**Effect of Condition**

There was approximately \$3,805 of cash held in the Sheriff's inmate bank account in excess of the detail individual records. Also there was no accountability available for approximately \$5,064 held in the Sheriff's civil bank account.

**Recommendation**

We recommend that all bank accounts be reconciled to a detail list of monies held for inmates or open civil cases.

**COUNTY OF COLUSA, CALIFORNIA  
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**09-MC-06 SHERIFF INMATE AND CIVIL CASH ACCOUNTABILITY AND RECONCILIATION (CONTINUED)**

**Corrective Action Plan**

The Auditor has spoken with Sheriff financial staff about the importance of balancing the various bank accounts with detailed records of accountability. The Sheriff's staff has performed an extensive analysis of the bank balances for both inmate and civil. It was determined that the "excess" amount from month-to-month was the same. The Sheriff financial staff and Auditor's staff is confident that no funds are due an inmate, and no funds are due in a civil proceeding. Staff believe the excess funds in each bank account was deposited as "start-up" money that was not properly recorded on the general ledgers.

In 2009-10 the County has eliminated the excess (overage) funds from each bank account and can identify the source of the entire reconciled balance. The Sheriff's Department has detailed lists on file for each bank account.

Further, in order to eliminate potential over-drafts in the two bank accounts due to the timing of deposits and payments, an advance will be made to each bank account. The specific advance amount will be included on the detailed list maintained by the Sheriff's Department for each bank account, and the entire list will be reconciled with the Auditor's financial system.

Last year the Civil Division purchased a new system to record payments. This computerized system will ensure that future deposits are accurately tracked and detailed for accountability.

The two outside bank accounts are maintained by the Sheriff's Department; they also maintain the detailed information regarding the specific deposits and payments. Every month bank statements, bank reconciliations, and detailed listings are provided to the Auditor's Office. On a monthly basis the net activity is posted to the Auditor's financial system for the Inmate Trust, Fund #07350, and Sheriff - Civil Trust, Fund #07351.

**09-MC-07 NET OPEB OBLIGATION**

**Condition**

During our audit we noted that actual OPEB contributions for the proprietary funds were not used in the calculation of the Net OPEB obligation.

**Cause**

The County calculated the net OPEB obligation using an allocation method based on number of employees by department.

**Criteria**

The actual OPEB contribution paid during the year should be used in the calculation of the Net OPEB Obligation.

**Effect of Condition**

The Net OPEB Obligation for the proprietary funds were understated at June 30, 2009.

**Recommendation**

We recommend that the actual OPEB contribution be used in the calculation of the Net OPEB Obligation. We further recommend that the County review the method used in allocating the annual required contribution to determine if a more accurate method such as actual salaries paid rather than number of employees would be preferable.

**COUNTY OF COLUSA, CALIFORNIA  
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**09-MC-07    NET OPEB OBLIGATION (CONTINUED)**

**Corrective Action Plan**

The OPEB obligation is an actuarial estimate which is revised bi-annually by an actuary based on current information and assumptions. The Net OPEB obligation was determined by taking the total OPEB obligation provided by the actuary and reducing the obligation by the total health insurance payments made on behalf of retirees (pay-as-you-go). After the net was determined for the entire County it was allocated to each Fund based on the number of employees. Starting in 2009-10 the County will first allocate the total OPEB obligation provided by the actuary to each Fund based on the number of employees and then reduce the obligation by the actual pay-as-you-go for each Fund.

**09-MC-08    OUTSIDE BANK**

**Condition**

We noted that the District Attorney had one bank account with a balance of approximately \$9,510 that is outside the County Treasury.

**Cause**

The Department set up a bank account to receive grant monies.

**Criteria**

Good internal control over cash requires that all monies be deposited in the County Treasury and recorded in the County's general ledger.

**Effect of Condition**

The grant revenues were not recorded in the general ledger and the risk of errors and irregularities occurring and not being detected is increased when monies are not deposited in the County Treasury.

**Recommendation**

We recommend that all monies be deposited in the County Treasury. We also recommend that the cash in the outside bank account be transferred to the County Treasury.

**Corrective Action Plan**

According to the District Attorney's Office the outside bank account was originally set up by Harold Wilsey when he was the D.A.; we believe possibly for investigations. In the more recent years it was used for direct deposit of the "Southwest Border Prosecution" funds from the Federal government. The direct deposit was a Federal requirement and at the time it is believed that the County did not have direct deposits set up for the regular bank account.

During 2009-10 the outside bank account at Wells Fargo will be closed and all future Southwest Border Prosecution funds will be deposited directly into the main Colusa County bank account at Bank of America. The Federal funds will be recorded on the County's financial system to the General Fund - District Attorney revenues. The Southwest Border Prosecution is basically reimbursement from the Federal government for reimbursement of the County salaries and expenses related to prosecution of Federal border cases.

**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
08-FS-04	<p><b>ROAD INVENTORY</b></p> <p><b>Recommendation</b></p> <p>We recommend that the physical inventory be completed in an accurate manner and that all differences be resolved.</p> <p><b>Status</b></p> <p>Not Implemented</p>
08-FS-05	<p><b>PAYROLL WITHHOLDING</b></p> <p><b>Recommendation</b></p> <p>We recommend that the County review the withholdings entered in the payroll system to ensure that employee withholdings are correct in accordance with the form W-4 and DE-4 completed by each employee.</p> <p><b>Status</b></p> <p>Not Implemented</p>
08-FS-06	<p><b>CAPITAL ASSETS</b></p> <p><b>Recommendation</b></p> <p>We recommend that the County identify all properties owned, the date of purchase and cost of each item.</p> <p><b>Status</b></p> <p>Not Implemented</p>
08-FS-07	<p><b>RECONCILIATION OF TRUST FUND</b></p> <p><b>Recommendation</b></p> <p>We recommend that the money held in the Unapportioned Tax Installments fund be reconciled to a detail list of open tax deposits.</p> <p><b>Status</b></p> <p>Implemented</p>
08-FS-08	<p><b>SOLID WASTE</b></p> <p><b>Recommendation</b></p> <p>We recommend that the County review the funding provisions for this liability and determine what action is necessary to adequately fund the closure/post-closure liability and whether a pledge of revenue has been adopted to fund the post-closure liability for both landfill sites.</p> <p><b>Status</b></p> <p>Not Implemented</p>

**COUNTY OF COLUSA, CALIFORNIA  
MANAGEMENT REPORT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
08-FS-09	<p><b>AGENCY FUND DEFICITS</b></p> <p><b>Recommendation</b></p> <p>We recommend that the County adopt and/or review an appropriate policy for authorizing and controlling deficit cash balances.</p> <p><b>Status</b></p> <p>Not Implemented</p>
08-FS-10	<p><b>SHERIFF INMATE AND CIVIL CASH ACCOUNTABILITY AND RECONCILIATION</b></p> <p><b>Recommendation</b></p> <p>We recommend that all bank accounts be reconciled to a detail list of monies held for inmates or open civil cases.</p> <p><b>Status</b></p> <p>Not Implemented</p>

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